



City of Bellevue

MEMORANDUM

Phone: 452-6846

Date: December 8, 2014

To: Mayor Balducci and City Council Members

From: Jan Hawn, Finance Director

Subject: 2014 Third Quarter Budget Monitoring Report

Attached is the 2014 Third Quarter Budget Monitoring Report for the period ending September 30, 2014. This report presents the General, General CIP, Development Services, Utilities Operating and Utilities CIP Funds.

Key items – 2014 Third Quarter:

- Year-end projected General Fund expenditures are tracking slightly above forecast. The excess expenditures are offset with higher revenue collections, projecting a small addition to fund balance bringing fund balance closer to the City's fund balance policy of 15% of Revenue.
- All other funds are performing within budget.

Please feel free to contact Toni Rezab at 452-7863 or me at 452-6846 with any questions you may have.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jan Hawn".

Jan Hawn, Finance Director

Attachment

2014 Third Quarter Budget Monitoring Report

Cc: Brad Miyake
Leadership Team



BUDGET MONITORING REPORT

For the period from January 1 through September 30, 2014

Economic Performance

This report presents revenues and expenditures for the General Fund, General Capital Investment Program Fund, Development Services Fund and the Utilities Operating and CIP Funds.

The purpose of the report is to compare actual expenditures and revenues and year-end projections to the 2014 adopted budget, to discuss reasons for variance and to convey the local and national economic outlook.

Year-end projected General Fund expenditures are tracking slightly above forecast. The excess expenditures are offset with higher revenue collections, projecting a small addition to fund balance bringing fund balance closer to the City's fund balance policy of 15% of Revenue.

National Economy

The Nation's economy is improving slowly, and this is due in large part by low consumer demand. Consumer demand is reliant on disposable income and thus restrained by low wages and salary growth. Even though measures of employment are improving, wage and salary growth have continued to lag. Underemployment and discouraged workers leaving the work force have restrained wage and salary growth and thus slowed consumer demand growth.

Regional Economy

The Puget Sound region is performing better than the nation during this economic recovery and this is ultimately due to its economic makeup. Using the Metropolitan Statistical Area as an analog for the Puget Sound Region, the Gross Municipal Product did not dip like the GDP, it instead just leveled off for 40 months (source: IHS Global Insight). There are a few factors that contribute to the better than nation economic performance such as the businesses located in the area, its ideal location, and the high quality workforce. The region draws and produces highly educated workers due to its very notable educational system.

Performance at a Glance

Pg. 2	General Fund Revenue Projection vs Expenditure Projection	+
Pg. 3	General Fund Revenue Projection as Compared to Budget	+
Pg. 4	General CIP Revenue Projection vs. Expenditure Projection	o
Pg. 5	Development Services Revenue Projection vs Expenditure Projection	+
Pg. 6	Utilities Operating Funds Revenue Projection vs Expenditure Projection	+
Pg. 6	Utilities CIP Revenue Projection vs Expenditure Projection	+

Legend:

+	Positive variance or negative variance < 1%
o	Negative variance of 1-4%
-	Negative variance of > 4%

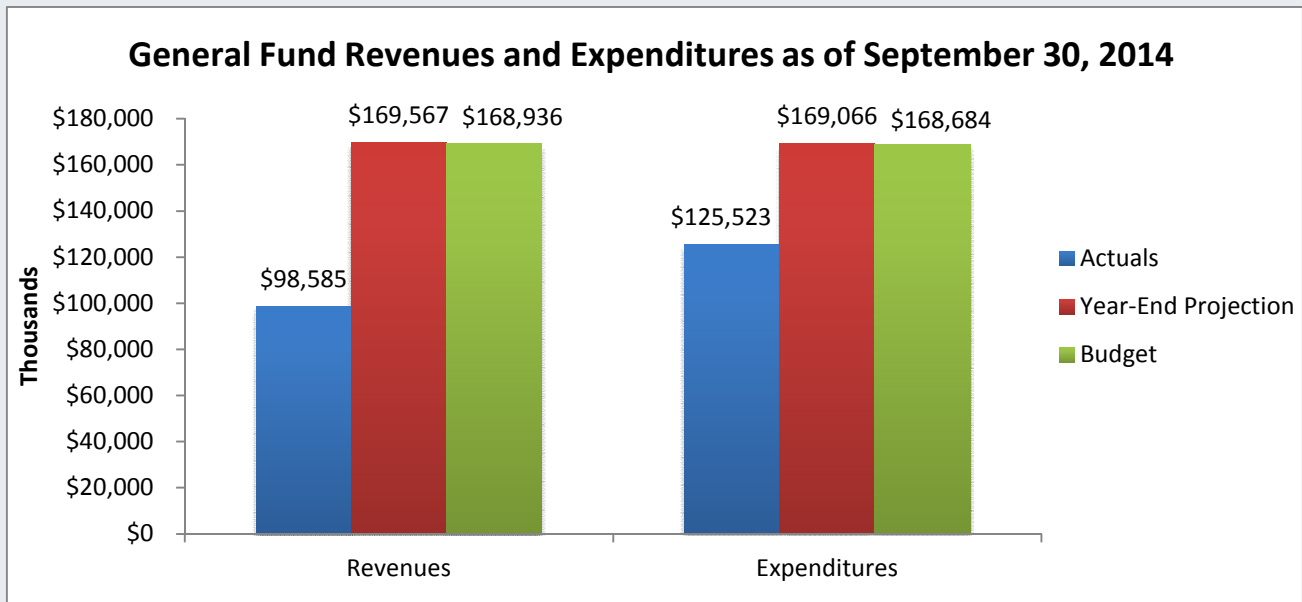
Bellevue Economy

As we drill down from the National and regional economies to Bellevue's economy, recovery continues to do better than the broader economy. Indeed most of the reasons for the region recovering better than the nation is in large amplified in Bellevue. When compared to the region, unemployment is lower, employment is higher, schools are ranked higher, and the workforce is more highly educated. Due to all these factors and more, Bellevue is a great place to live and work and enjoyed greater economic success. Bellevue's economic success has boosted residential construction, with several large multi-family housing units under construction as well as driven up home prices to pre-recession levels.

City of Bellevue Budget Monitoring Report

January 1 to September 30, 2014

GENERAL FUND PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date revenue collections and expenditures through September, current year-end estimates, and adopted budget. Due to the time lag between earning and receiving some major taxes, year-to-date actuals are less than actual second quarter activities. Expenditures are based on actual activities performed during the third quarter.

Revenue

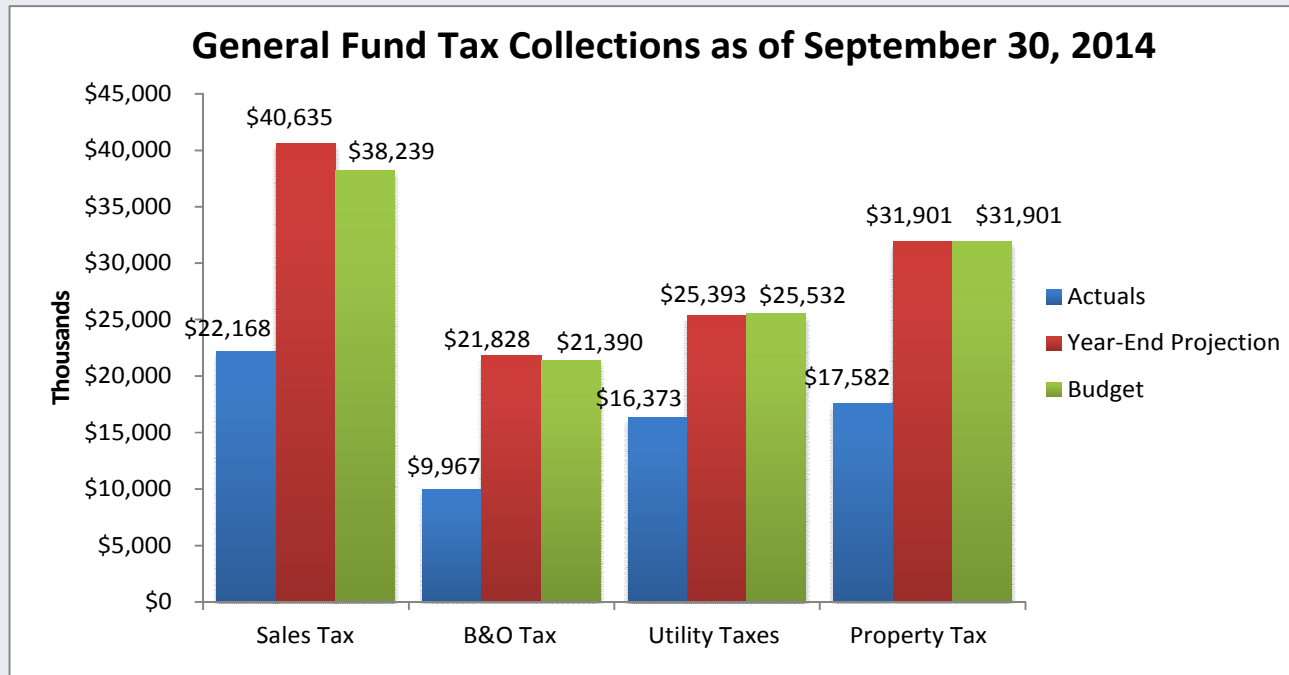
Over all General Fund revenue is expected to end the year slightly above budget. General Fund revenue consists of roughly 290 sources including taxes, state shared funds, grants and user fees to name a few. Taxes are the largest component of General Fund revenue comprising 72% (total utility, sales, property, and B&O taxes) of total revenue. Revenue projections are approximately \$900k or 0.5% greater than the second quarter report. Year-end tax projections are estimated to be slightly above budget with the majority of increases in sales tax. As noted on the next page, sales tax has received \$625,000 of prior period taxes. Other areas where year-end estimates have increased are parks and fire fees. Areas that have experienced reduced year-end projections include Development Services, interfund services, and department reimbursements.

Expenditures

Year-end expenditure projections are slightly greater than budget but less than year-end projected revenue.

The Budget Office is closely watching spending and revenue collections as the economy continues to recover. These projections include department's 1% under budget assumption which the departments have included in their year-end estimate and are monitoring to.

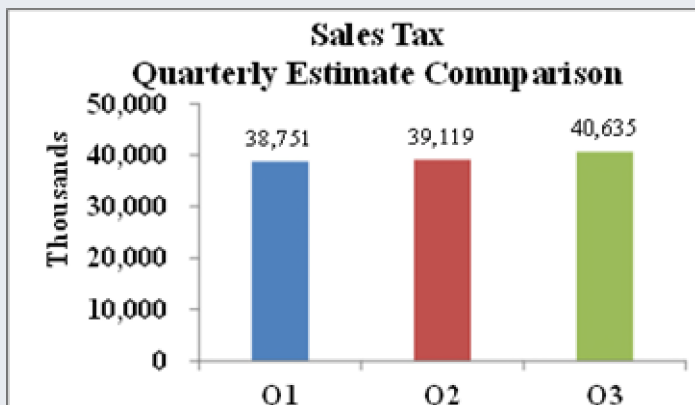
GENERAL FUND PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date collections through September, current year-end estimates, and adopted budget. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual third quarter activities. Additionally, year-end projections are based on the limited information available to date. Projections, which are based on economic trends and projections as well as historical collections, will be updated as more information becomes available.

Tax Revenues

At this point, year-end tax revenue are projected to be 0.5% above budget. Taxes exceeding budget, like sales tax, are largely offset with taxes that are coming up short, such as utility taxes. Projections will be updated as additional information is received.



Sales Tax:

Sales tax is projected to be greater than second quarter due to \$625k of large one-time purchases and collections of taxes incurred in previous years, while the remaining amount is due to development activity ramping up quicker than anticipated.

Business and Occupation Tax (B&O Tax):

B&O tax is projected to be slightly above budget and is collected several months in arrears. Included in B&O tax is audit recoveries that may be assessed and collected from years past.

Utility Taxes:

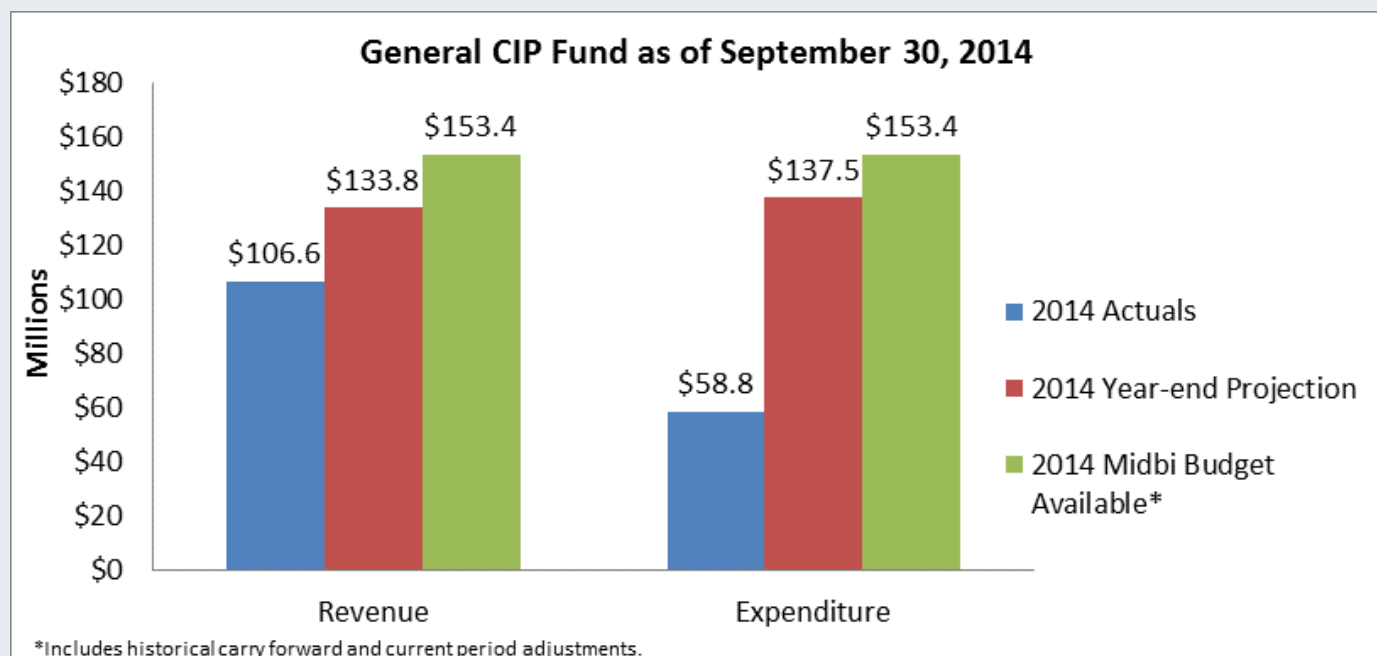
Utility tax collections are projected to be slightly below budget due to continued decline in Electric, Gas, Telephone and Cell Phone tax collections.

Property Tax. Property tax is determined based on the assessed value of properties and the tax rate levied within Bellevue. This tax is not as volatile as sales and B&O tax and is projected at budget.

City of Bellevue Budget Monitoring Report

January 1 to September 30, 2014

GENERAL CIP PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date resource collections and expenditures through September, current

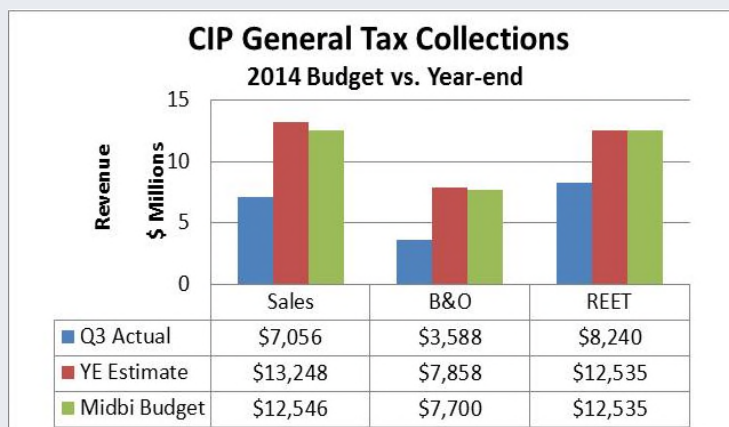
Resources

Major CIP resources are comprised of bond proceeds, taxes, grants and contributions. Other than bond proceeds which are generally not issued annually, the largest resource for the CIP fund are taxes, Sales Tax, B&O Tax, Real Estate Excise Tax and the Parks Levy. Taxes are projected to be at slightly above budget. Compared to second quarter sales tax increased by \$456k and B&O increased by \$144k. For specific discussion about Sales and B&O tax see the General Fund section of this report. Real Estate Excise Tax (REET) collections are projected to come in as forecasted; however, the Budget Office is monitoring this revenue stream particularly closely.

Further, miscellaneous revenues, which includes private donations, are keeping pace with associated project schedules, such as the Bellevue Botanical Garden Projects and the Hidden Valley Sports Field Improvements. In total, the CIP fund is estimated to collect \$134 million.

Expenditures

CIP expenditures are projected to be \$137.5 million at year-end largely due to continued progress on large scale transportation projections, including NE 4th Street and NE 120th Street, and the completion of priority Parks & Community Services projects (e.g., Bellevue Youth Theatre, Bellevue Botanical Garden).



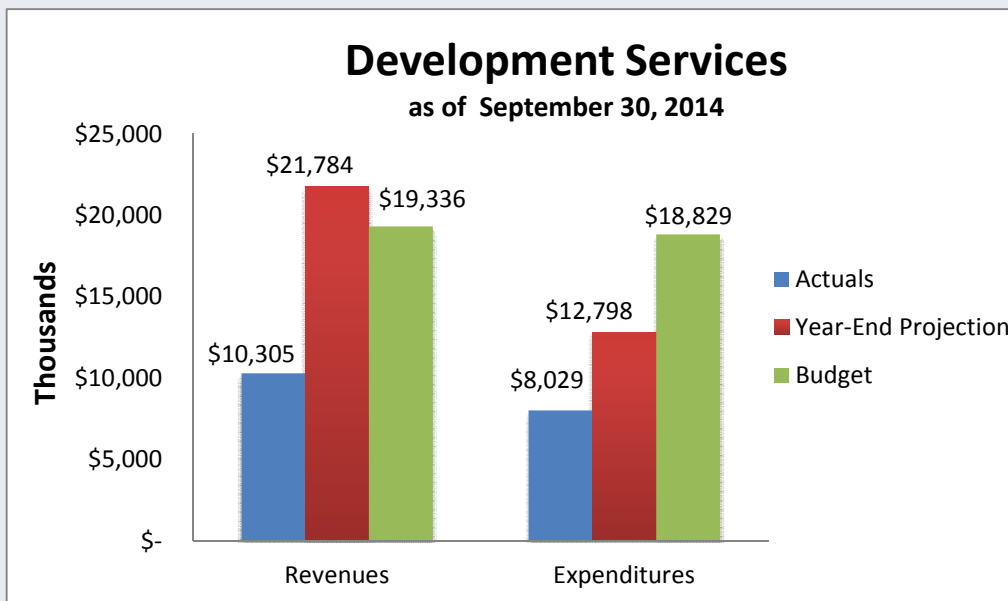
Cash Flow Borrowing

At this point year-end estimated expenses are exceeding resources by \$3.5 million. An interfund loan was approved by City Council in 2013 for \$30 million and to-date only \$15 million has been borrowed. The Budget Office is monitoring this funding gap closely. Despite the apparent gap in funding, additional cash flow borrowing is not anticipated by year-end. The whole of capital projects are rarely fully spent at the end of the year and as year-end approaches the gap will likely diminish.

DEVELOPMENT SERVICES PERFORMANCE



Bellevue Square Expansion—701 Bellevue Way

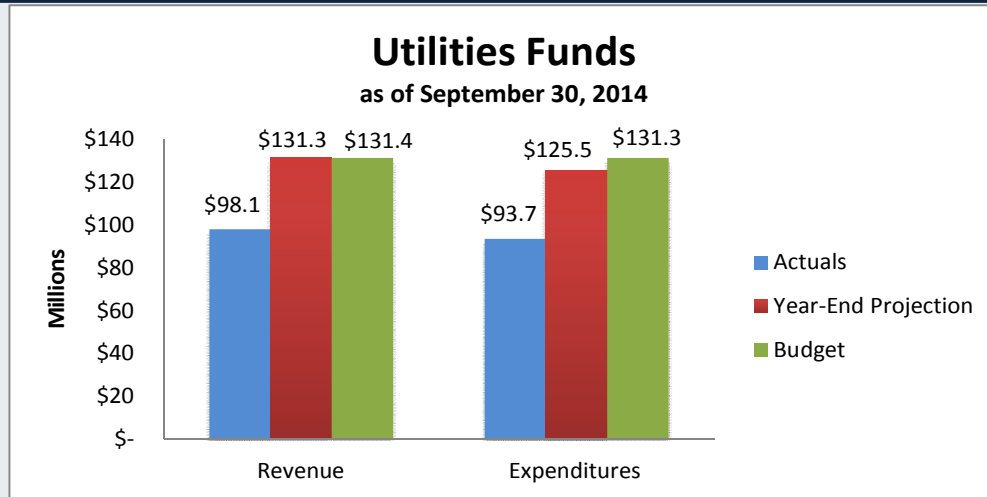


Development Services revenue collections are at anticipated levels in the third quarter, largely due to applications for major projects. Economic growth continues to improve as development permit applications increase in valuation size and scope. Development permit activity has increased over 2013 levels by 8% and is anticipated to remain steady through year-end. East Link permit activity has begun and is anticipated to be a driver of workload in 2015. Development Services year-end expenditure projection reflects expenditure savings realized mainly through position vacancies and other maintenance and operation savings.

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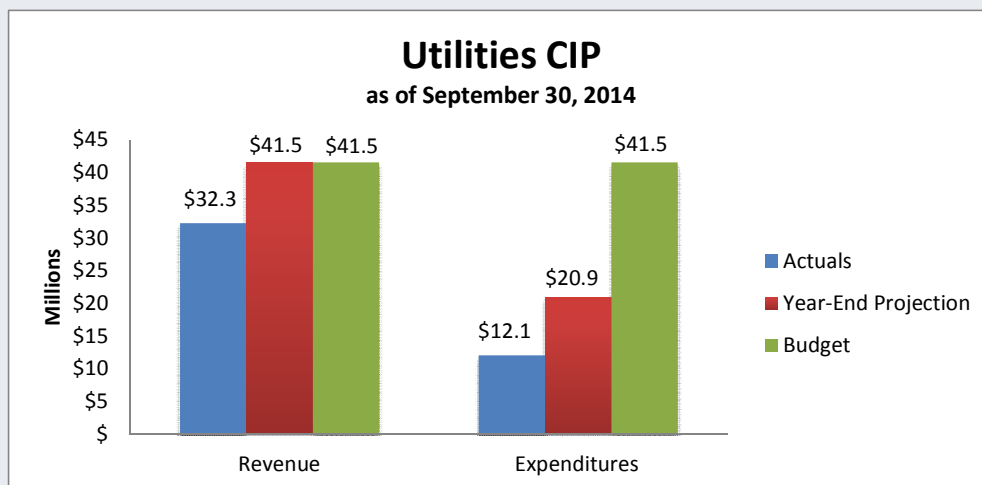
UTILITIES OPERATING FUNDS



**Note: 2014 budgeted and projected revenue includes \$1.8m in funding carried forward from 2013 to complete work that was started but not yet complete at the end of the year.*

Utility operating revenues are projected to be at budget by year end. While revenues from water sales and regional capital facility charges were stronger than anticipated due to weather conditions and development activity, this was offset by the timing of interfund revenues related to the East Link utility relocations project. Funding for this project has been rebudgeted to 2015. Utility operating expenditures are expected to be under budget due to the timing of expenditures for the East Link utility relocations project. Partially offsetting this under-expenditure are higher than anticipated regional water connection charge payments and additional taxes from the increased water service revenue. Consistent with City financial policies, transfer of year-end fund balances above anticipated levels to the infrastructure renewal and replacement fund will be made at the end of the year.

UTILITIES CIP



Utility CIP revenues (not including reserves) are projected to be at budget by year end. Utility CIP expenditures are expected to be below budget by year-end due to the timing of construction activities to coordinate with other projects, to consolidate projects to attract more favorable bid pricing, and project delays due to shortage of staff resources. The delayed projects will be incorporated into the updated 2015-2021 Utilities CIP. The related unspent project resources will be rebudgeted as part of the 2015-2016 biennial budget planning process.

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